

## Theresa Rice

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**From:** Roz Lassoﬀ on behalf of Council  
**Sent:** Monday, June 18, 2012 1:13 PM  
**To:** Theresa Rice  
**Subject:** FW: Request to Speak at June 20, 2012 Meeting on Nonconforming Land Use  
**Attachments:** Unintended Consequences.pdf

*Roz Lassoﬀ*  
Rosalind D. Lassoﬀ, City Clerk  
City of Bainbridge Island  
280 Madison Avenue North  
Bainbridge Island, WA 98110  
(206) 780-8624

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**From:** Lewis Mandell [<mailto:lewmandell@yahoo.com>]  
**Sent:** Monday, June 18, 2012 12:50 PM  
**To:** Council  
**Subject:** Request to Speak at June 20, 2012 Meeting on Nonconforming Land Use

Sirs:

Please accept my request to speak at the June 20, 2012 meeting on nonconforming land use. As a professional economist, I have conducted an economic analysis of the impact of the SMP's reclassification of all waterfront properties as nonconforming on the transfer of the tax burden from waterfront homeowners to the less affluent members of the Bainbridge population who live inland. I would like to share my analysis with members of the City Council.

A copy of my analysis is attached herein.

***Lewis Mandell, Ph.D.***

Financial Economist  
Professor Emeritus and Former Business Dean, SUNY Buffalo  
3720 Point White Drive  
Bainbridge Island WA  
(206) 842-2610  
(206) 724-4626 (mobile)  
[www.LewisMandell.com](http://www.LewisMandell.com)

## **How the Shoreline Master Plan Can Substantially Increase Your Taxes**

Lewis Mandell, Ph.D.

Before approving the proposed Shoreline Master Plan, the Bainbridge Island City Council should consider its unintended economic consequences including transfer of a large part of the tax burden from those who live on the water to those who live inland.

The value of shoreline properties on Bainbridge Island is based upon a rare combination of factors including the aesthetic value of living on the water and the proximity value of being able to commute to a major city. It is not unusual for the value of waterfront land, here, to exceed the value of the dwelling.

Part of the value of any investment is what economists call “real options,” which is the ability of present and future owners to make reasonable changes to their home and grounds to suit their needs. For example, to age in place, our older citizens may need to expand their ground-floor footprint, away from the water, to facilitate mobility and accommodate caretakers. If these or other options are taken from a property, it loses value: if housing modifications are prohibited, restricted or penalized strictly because of location near the water, the value of the home is diminished. Similarly, reclassification of a legally-constructed home from conforming to non-conforming subjects the property to uncertain current and future restrictions and adds uncertainty to its future use and enjoyment, thereby further diminishing the value of the property.

The injection of uncertainty in the value of shoreline properties, once disclosed to potential buyers, will have a chilling effect on sales. And speaking as a former federal bank regulator, this uncertainty will be incorporated into regulator-enforced mortgage loan underwriting standards in the form of higher equity requirements, higher mortgage rates or both, thereby further diminishing the value of these properties.

It is important for the City Council to realize that the burden of falling waterfront home values will *not* be borne entirely by owners of such properties. As shoreline property values decrease, so will their assessed valuation. This will have the unintended consequence of transferring a sizeable portion of the tax burden to those who live inland which is very regressive.

To get a rough estimate of the additional taxes that will fall on the shoulders of homeowners who do *not* live on the water, I did an analysis of all Bainbridge single family dwellings included in the Multiple Listing Service on Sunday, June 3. There were 245 homes listed of which 43, or about 18 percent, were waterfront. However, the value of waterfront properties, by asking price, constituted 37 percent of the value of all listed properties. This implies that if the implementation of the Shoreline Master Plan results in a differential loss of value of waterfront properties of 25 percent, property taxes of Bainbridge homes that are not

located on the waterfront must increase by more than 9 percent in order to maintain the current level of government services.

Ultimately, economic policy comes down to balancing costs and benefits of new regulations. Members of the Bainbridge City Council should vote to make *all* waterfront homes nonconforming only if the scientifically-verified environmental benefits to their constituents are so enormous as to offset the loss in value imposed on shoreline property owners and the increase in taxes that they will impose on the generally less affluent who live inland.

Lewis Mandell is an economist and lifelong academic, the author of 21 books, who has served as professor of economics and finance at several prominent universities including, most recently, the University of Washington. He also served as Director of Economic Research for the Office of the Controller of the Currency, the regulator of National Banks.

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Lewis Mandell, Ph.D.  
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Bainbridge Island, WA 98110  
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